

**GENERAL ASSEMBLY RETIREMENT SYSTEM,
STATE OF ILLINOIS**

**COMPONENT UNIT
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 1990**

GENERAL ASSEMBLY RETIREMENT SYSTEM,
STATE OF ILLINOIS

2101 South Veterans Parkway
P.O. Box 19255 Springfield, Illinois 62794 - 9255

Prepared by the
Accounting Division

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Introductory Section

Letter of Transmittal

Administration, Board of Trustees and Administrative Staff

Certificate of Achievement for Excellence in Financial Reporting



**STATE
RETIREMENT
SYSTEMS**

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255, Ph. (217)785-7444

December 14, 1990

The Board of Trustees and Members
General Assembly Retirement System,
State of Illinois
Springfield, IL 62794

Dear Board of Trustees and Members:

The component unit annual financial report of the General Assembly Retirement System (System) for the fiscal year ended June 30, 1990 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization;
2. The Financial Section which contains the report of the independent public accountants, the financial statements of the System, and the supplementary and additional financial information;
3. The Actuarial Section which contains the report of the Actuary as well as the summary of major actuarial assumptions and certain tables;
4. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

Although the General Assembly Retirement System, State Employees' Retirement System and Judges' Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the General Assembly Retirement System do not include balance sheet information nor the results of operations of the State Employees' Retirement System or Judges' Retirement System.

PLAN HISTORY AND SERVICES PROVIDED

The General Assembly Retirement System (System) was established as a public employee retirement system (PERS) by state statute on July 8, 1947. The purpose of the System as prescribed by state statute is to "provide retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected state officials and their beneficiaries".

Responsibility for operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility

of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to insure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable state statute.

The completion of fiscal year 1990 marks the 43rd anniversary of the System. The following table highlights certain financial information and membership data during the 43 year history of the System.

	June 30,			
	1948	1962	1977	1990
Number of participants	190	272	324	269
Number of annuities granted:				
Retirement	0	49	142	196
Survivors	0	34	92	124
Total assets (net)	\$ 38,937	\$ 2,397,224	\$ 10,478,541	\$ 33,442,677
Actuarial liability	\$ 588,333	\$ 4,383,558	\$ 21,373,625	\$ 78,623,637
Unfunded actuarial liability	\$ 549,396	\$ 1,986,334	\$ 10,895,084	\$ 45,180,960
Total revenues	\$ 39,112	\$ 474,585	\$ 1,934,408	\$ 5,815,142
Total expenses	\$ 175	\$ 140,054	\$ 1,340,677	\$ 4,049,971

REVENUES

Collection of employer and participant retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These income sources totaled \$5,815.2 thousand during the fiscal year ending June 30, 1990, which is an increase from revenue reported for fiscal year 1989, shown as follows:

	1990 (Thousands)	1989 (Thousands)	Increase/(Decrease)	
			(Thousands)	(Percentage)
Contributions:				
Participants	\$ 1,002.3	\$ 869.6	\$ 132.7	15.3%
Employer	2,147.0	1,997.5	149.5	7.5%
Investments	2,665.9	2,555.3	110.6	4.3%
Total Revenue	<u>\$ 5,815.2</u>	<u>\$ 5,422.4</u>	<u>\$ 392.8</u>	<u>7.2%</u>

As indicated in the total above, a substantial portion of the total revenue is derived from investment income, including the realization of substantial gains on the sales of investments, during both fiscal years 1990 and 1989.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. The payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses of the System for 1990 and 1989 are shown below for comparison purposes.

	1990 (Thousands)	1989 (Thousands)	Increase/(Decrease)	
			(Thousands)	(Percentage)
Benefits:				
Retirement annuities	\$ 3,163.6	\$ 3,046.4	\$ 117.2	3.8%
Survivors' annuities	717.1	636.0	81.1	12.8%
Total Benefits Expenses	<u>\$ 3,880.7</u>	<u>\$ 3,682.4</u>	<u>\$ 198.3</u>	<u>5.4%</u>
Refunds	42.4	55.6	(13.2)	(23.7%)
Administrative expenses	126.9	113.3	13.6	12.0%
Total Expenses	<u>\$ 4,050.0</u>	<u>\$ 3,851.3</u>	<u>\$ 198.7</u>	<u>5.2%</u>

The increase in benefit payments resulted primarily from higher salaries for current retirees and post retirement annuity increases granted each January 1.

INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Article 22A of the Illinois Pension Code. For the fiscal year ended June 30, 1990, the total investment return on the market value of assets managed by the ISBI was 8.0% compared to 14.3% during the fiscal year ended June 30, 1989.

Total investment income, including net realized gains on the sale of investments, amounted to \$2,665.9 thousand during fiscal year 1990, an increase of \$110.6 thousand from fiscal year 1989 as shown below for comparison purposes.

	1990 (Thousands)	1989 (Thousands)	Increase/(Decrease)	
			(Thousands)	(Percentage)
Net investments income	\$ 1,880.0	\$ 1,792.4	\$ 87.6	4.9%
Net realized gain on sale of investments	703.9	677.1	26.8	4.0%
Interest earned on cash balances	82.0	85.8	(3.8)	(4.4%)
Total Investments revenue	<u>\$ 2,665.9</u>	<u>\$ 2,555.3</u>	<u>\$ 110.6</u>	<u>4.3%</u>

Income from investments has, over the years, become a greater share of the total revenue of the System. For the fiscal year ended June 30, 1990, income from investments represents 45.8% of total fund revenue compared to 47.1% for fiscal year 1989.

A detailed discussion of investment performance and strategies are provided in the Investment Section of this report.

FUNDING AND RESERVES

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

The actuarial determined liability of the System at June 30, 1990, amounted to \$78.6 million. The fund balances for participant contributions and future operations amounted to \$33.4 million as of the same date. The amount by which the actuarial determined liability exceeds the fund balances is called the "unfunded present value of credited projected benefits." The unfunded present value of credited projected benefits amounts to \$45.2 million and reflects the continuing state policy of appropriating funds based upon a percentage of the total amount of benefit payments made to current recipients. A detailed discussion of funding is provided in the Actuarial Section of this report.

ECONOMIC CONDITION AND OUTLOOK

The state's policy on pension funding has been based on variations of the pay-as-you-go approach. From fiscal year 1973 through fiscal year 1981, the state's contribution was approximately equal to 100% of payout (the dollar amount expected to be paid out in benefits each year).

Beginning in fiscal year 1982, however, state appropriations have been less than 100% of payout. In fiscal year 1982, the appropriation fell to 62.5% of payout, while in fiscal year 1983 the appropriation declined to just over 50 % of payout. These reductions were due in large part to the state's poor fiscal

condition. From fiscal year 1984 to fiscal year 1987, the state's appropriation was approximately 60% of payout. The fiscal year 1988 regular contribution was approximately 48% of payout, and the fiscal years 1989 and 1990 contributions were approximately 44% of payout.

Financing the retirement benefits that are being earned is one of the most important issues facing the General Assembly Retirement System. Over the years, a number of organizations have stressed the need for sound funding of the System. In August, 1989, Governor Thompson signed Senate Bill 95 into law. This Bill provided for the increased funding of the unfunded actuarial liability which has been steadily increasing for the past several years. The amortization period of the unfunded liability was established at 40 years and is scheduled to begin in 1996. In order to defer the cost of a substantial increase in the required employer contributions, a seven year phase-in period was included in the legislation. The seven year phase-in period was to be used to increase the amount of contributions from the current contribution level to that level required for the amortization of the unfunded liability over the 40 year period. However, the state did not appropriate sufficient monies to cover the employer share of retirement contributions in the first year of the phase-in period.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure of the financial status of a retirement system because no universally accepted measure of the financial status presently exists. By any reasonable actuarial standard, however, the System's present financial condition must be described as precarious due to the continually increasing dollar level of the unfunded liability. The events in the financial markets during the past several years serve as a constant reminder of the fact that no source of revenue can be guaranteed and that the ultimate responsibility for a sound funding policy and the related liability for contributions rests ultimately with the State of Illinois.

MAJOR INITIATIVES

During the past fiscal year, the System completed several major projects. Most significant was the publishing of a participant handbook titled "BENEFITS - Your Rights and Responsibilities" as well as the "SOLON", a semi-annual newsletter for active members and annuitants. The System also completed work on developing a procedures manual which will aid the staff of the System and serve as a training tool.

Additionally, the System moved to a new office facility during the past fiscal year. The new facility, constructed and owned by the State Employees' Retirement System, is also the home of the Judges' Retirement System. Located at 2101 South Veterans Parkway, Springfield, Illinois, the new building is intended to serve the long-term space needs of the System.

Projects for fiscal year 1991 include the development and implementation of an automated benefit calculation system; the implementation of a Field Services program designed to provide valuable information to all members, annuitants and survivors utilizing one-on-one consultation sessions by staff personnel at various locations throughout the state; and the study and possible development of a reciprocal data base for storage and calculation of reciprocal service credits. A new handbook specifically designed for annuitants and survivors is also being developed for publication during fiscal year 1991.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the General Assembly Retirement System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. The General Assembly Retirement System also uses the State of Illinois, Comptroller's Uniform Statewide Accounting System (CUSAS) as a basis for the preparation of the financial statements. In developing the System's

accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operations of the System. Actuarial services are provided by S. Goldstein & Associates, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of Arthur Andersen & Co. under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a two year compliance audit was also performed by the auditors. The purpose of the compliance audit was to determine whether the General Assembly Retirement System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the General Assembly Retirement System for its component unit financial report for the fiscal year ended June 30, 1989. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

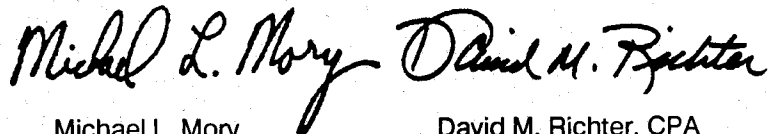
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such component unit financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the participants in the State of Illinois. On behalf of the Board of Trustees we would like to express our appreciation to the staff and professional consultants who worked so effectively to assure the successful operation of the System.

Respectfully submitted,

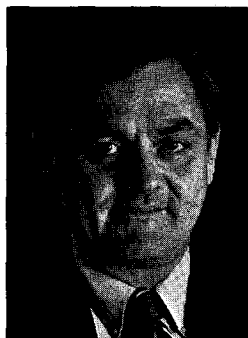


Michael L. Mory
Executive Secretary

David M. Richter, CPA
Accounting Division

GENERAL ASSEMBLY RETIREMENT SYSTEM

BOARD OF TRUSTEES



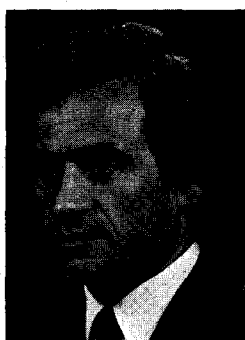
**SENATOR
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Chairman



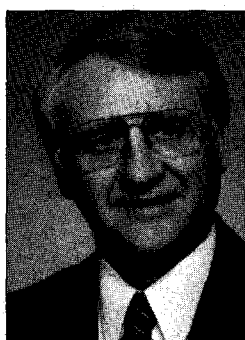
**REPRESENTATIVE
GENE L. HOFFMAN**
Vice Chairman



**ANNUITANT
JOHN MERLO**
Secretary



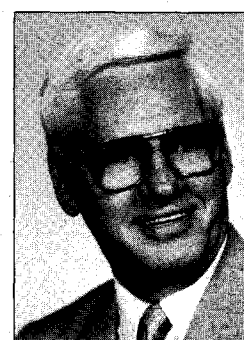
**SENATOR
JOHN A. D'ARCO**



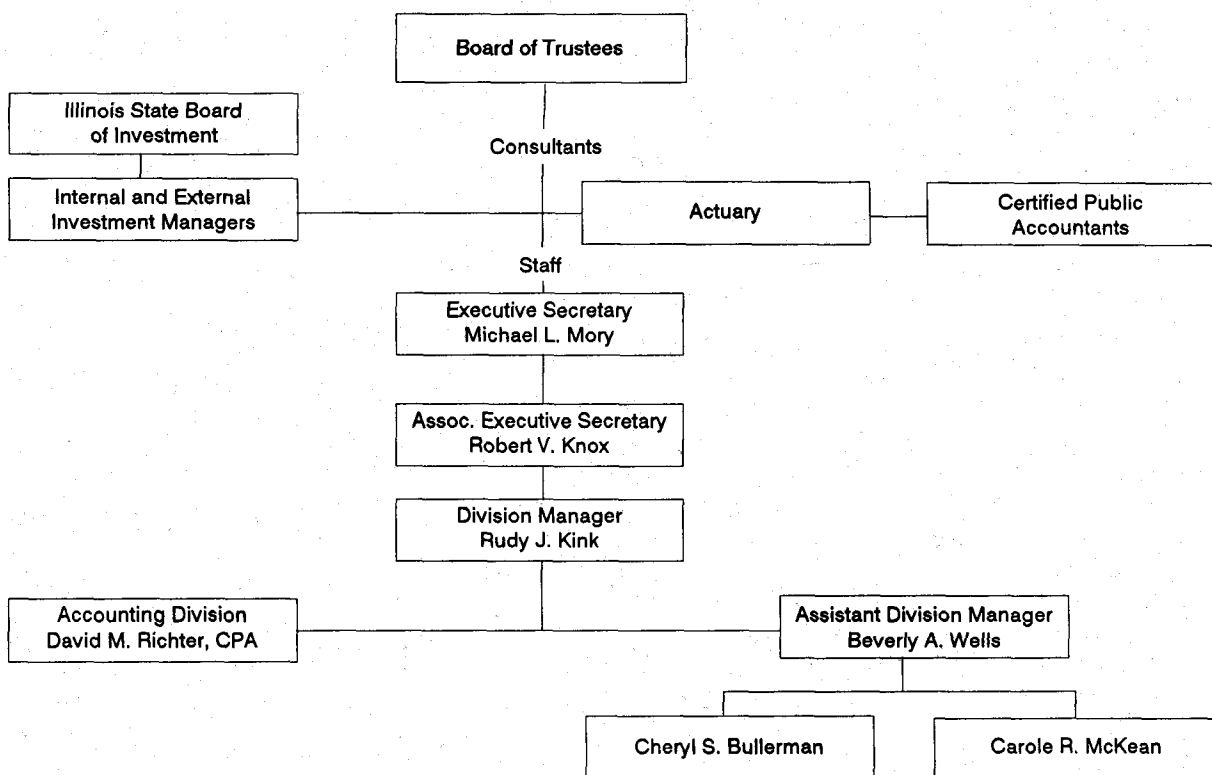
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ROBERT M. TERZICH**



**REPRESENTATIVE
SAM W. WOLF**




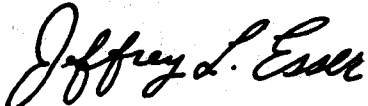
Certificate of Achievement for Excellence in Financial Reporting

Presented to
General Assembly Retirement
System, State of Illinois

For its Component Unit
Financial Report
for the Fiscal Year Ended
June 30, 1989

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose component unit financial reports (CUFR's) achieve the highest standards in government accounting and financial reporting.




President

Executive Director

Financial Section

Independent Auditors' Report

Financial Statements

Required Supplementary Information

Supplementary Financial Information

Additional Financial Information

ARTHUR ANDERSEN & Co.

CHICAGO, ILLINOIS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Honorable Robert G. Cronson
Auditor General
State of Illinois

Board of Trustees
General Assembly Retirement
System--State of Illinois

We have audited, as Special Assistant Auditors for the Auditor General, the accompanying balance sheets of the GENERAL ASSEMBLY RETIREMENT SYSTEM--STATE OF ILLINOIS as of June 30, 1990 and 1989, and the related statements of revenue, expenses and changes in fund balance for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards for financial audits contained in the U.S. General Accounting Office's "Government Auditing Standards." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Assembly Retirement System--State of Illinois as of June 30, 1990 and 1989, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The statements of supplementary financial information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. This information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.


ARTHUR ANDERSEN & CO.

October 19, 1990

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Balance Sheets
June 30, 1990 and 1989

Assets	1990	1989
Cash	\$ 913,283	\$ 348,265
Receivables:		
Participants' contributions	\$ 5,357	\$ 65,742
Refundable annuities	3,579	6,791
Interest on cash balances	5,511	4,158
	<u>\$ 14,447</u>	<u>\$ 76,691</u>
Investments - held in the Illinois State Board of Investment Commingled Fund, at cost (Market value: 1990, \$36,119,540 1989, \$34,742,711) (Note 3)	\$ 32,549,302	\$ 31,290,392
Equipment, net of accumulated depreciation (Note 8)	17,723	13,532
Total Assets	<u>\$ 33,494,755</u>	<u>\$ 31,728,880</u>
Liabilities and Fund Balance		
Refunds payable	\$ 513	\$ --
Administrative expenses payable (Note 7)	11,306	21,298
Due to Judges' Retirement System of Illinois	38,259	30,076
Participants' Deferred Service Credit Accounts	2,000	--
Total Liabilities	<u>\$ 52,078</u>	<u>\$ 51,374</u>
Fund Balance		
Actuarial present value of credited projected benefits (Note 5)	\$ 78,623,637	\$ 62,834,957
Less unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(45,180,960)	(31,157,451)
Total Fund Balance (Note 10)	<u>\$ 33,442,677</u>	<u>\$ 31,677,506</u>
Total Liabilities and Fund Balance	<u>\$ 33,494,755</u>	<u>\$ 31,728,880</u>
See accompanying notes to financial statements.		

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1990 and 1989

	1990	1989
Revenue:		
Contributions:		
Participants	\$ 1,002,258	\$ 869,635
Employer	2,147,001	1,997,500
Total Contributions revenue	<u>\$ 3,149,259</u>	<u>\$ 2,867,135</u>
Investments:		
Net investments income	\$ 1,879,972	\$ 1,792,392
Interest earned on cash balances	81,973	85,808
Net realized gain on sale of investments	703,938	677,117
Total Investments revenue	<u>\$ 2,665,883</u>	<u>\$ 2,555,317</u>
Total Revenue	<u>\$ 5,815,142</u>	<u>\$ 5,422,452</u>
Expenses:		
Benefits:		
Retirement annuities	\$ 3,163,616	\$ 3,046,455
Survivors' annuities	717,076	635,956
Total Benefits expenses	<u>\$ 3,880,692</u>	<u>\$ 3,682,411</u>
Refunds	42,427	55,660
Administrative (Note 7)	126,852	113,261
Total Expenses	<u>\$ 4,049,971</u>	<u>\$ 3,851,332</u>
Excess of Revenue over Expenses	<u>\$ 1,765,171</u>	<u>\$ 1,571,120</u>
Fund Balance at beginning of year	<u>\$ 31,677,506</u>	<u>\$ 30,106,386</u>
 Fund Balance at end of year	 <u>\$ 33,442,677</u>	 <u>\$ 31,677,506</u>

See accompanying notes to financial statements.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS

Notes to Financial Statements

June 30, 1990 and 1989

(1) Reporting Entity

The General Assembly Retirement System (System) is a component unit of the State of Illinois. The System is considered part of the State of Illinois financial reporting entity and is included in the state's comprehensive annual financial report as a pension trust fund.

The System has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of the System should be included within its financial reporting entity. The criteria include, but are not limited to, whether the System exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships.

Based upon the above criteria, there were no other state agencies, boards or commissions which were required to be included within the financial reporting entity.

(2) Plan Description

The System is the administrator of a single-employer public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants.

At June 30, 1990 and 1989, the System membership consisted of:

	<u>1990</u>	<u>1989</u>
Retirees and beneficiaries		
currently receiving benefits:		
Retirement annuities	196	199
Survivors' annuities	121	123
Reversionary annuities	<u>3</u>	<u>3</u>
	320	325
Inactive participants entitled		
to benefits but not yet		
receiving them	<u>81</u>	<u>86</u>
Total	<u>401</u>	<u>411</u>
Current Participants:		
Vested	157	137
Nonvested	<u>31</u>	<u>47</u>
Total	<u>188</u>	<u>184</u>

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System.

(a) Eligibility and Membership

The General Assembly Retirement System covers members of the General Assembly of the State and persons elected to the offices of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller and Attorney General for the period of service in such offices and the Clerks and Assistant Clerks of the respective Houses of the General Assembly. Participation by eligible persons is optional.

(b) Contributions

The General Assembly Retirement System is funded through contributions from participants, State of Illinois

appropriations and investment income. Participants in the General Assembly Retirement System contribute 8-1/2% of their salaries for retirement annuities, 2% for survivors' annuities and 1 % for an annual automatic increase in the retirement annuity.

(c) Benefits

The General Assembly Retirement System, State of Illinois, was established in 1947 as a component unit of the State of Illinois and is governed by Chapter 108-1/2, Article 2 of the Illinois Revised Statutes.

After eight years of credited service, participants have vested rights to retirement benefits beginning at age 55, or after four years of service with retirement benefits beginning at age 62. The General Assembly Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, reversionary annuity benefits and, under specified conditions, lump sum death benefits. Participants who terminate service may receive, upon application, a refund of their total contributions.

The retirement annuity is determined according to the following formula based upon the participants' final rate of salary.

3.0% for each of the first 4 years of service, plus
3.5% for each of the next 2 years of service, plus
4.0% for each of the next 2 years of service, plus
4.5% for each of the next 4 years of service, plus
5.0% for each year of service in excess of 12 years

The maximum retirement annuity payable is 85% of the final rate of salary.

(3) Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting

The financial transactions of the System are recorded on the accrual basis of accounting and in conformity with generally accepted accounting principles. Participant and employer contributions are recognized as revenues in the period in which employee services are performed.

(b) Method Used to Value Investments

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

Investments are managed by the ISBI pursuant to Article 22A of the Illinois Pension Code and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Illinois Revised Statutes Chapter 108-1/2, Article 22A-112. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires certain financial statement disclosure of deposits and investments, such as the disclosure of carrying amounts

by type of investment and classification into one of three categories based upon credit risk. Investments in pools managed by other governmental agencies, in general, are to be disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form.

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The agent of the master custodian is Depository Trust Company.

Listed below are the ISBI investments, as categorized in the ISBI annual financial report. They are categorized to indicate the level of risk assumed by the ISBI Board at year end. Category I includes investments that are insured or registered or for which the securities are held by the master custodian in the ISBI Board's name. Category II includes uninsured and unregistered investments for which the securities are held by the master custodian in the ISBI Board's name. Category III includes uninsured and unregistered investments for which the securities are held by an agent of the master custodian but not in the ISBI Board's name.

At June 30, 1990, the ISBI Board's deposits and investments were categorized as follows:

	Category I	Category II	Category III	Cost	Market Value
U.S. Government					
Obligations	\$ 530,697,981	\$ --	\$ --	\$ 530,697,981	\$ 536,758,724
Foreign Obligations - Bonds	29,171,342	--	--	29,171,342	30,585,412
Foreign Obligations - Equities	236,300,748	--	--	236,300,748	257,453,355
Corporate Obligations	605,698,908	--	--	605,698,908	624,021,097
Convertible Bonds	87,617,344	--	--	87,617,344	89,026,037
Common Stock &					
Equity Funds	806,663,978	--	--	806,663,978	971,106,831
Convertible Preferred Stock	19,201,322	--	--	19,201,322	18,618,822
Preferred Stock	8,843,304	--	--	8,843,304	4,557,144
Money Market Instruments	220,423,414	--	8,152,344	228,575,758	228,575,758
SUBTOTAL	<u>\$ 2,544,618,341</u>	<u>\$ --</u>	<u>\$ 8,152,344</u>	<u>\$ 2,552,770,685</u>	<u>\$ 2,760,703,180</u>
Real Estate Pooled Funds				264,541,797	338,205,156
Venture Capital				127,365,419	157,978,812
Other assets, less liabilities				26,879,580	26,889,929
TOTAL				<u>\$ 2,971,557,481</u>	<u>\$ 3,283,777,077</u>

The ISBI Board participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI Board receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1990 and 1989, the ISBI Board had outstanding loaned investment securities having a market value of approximately \$332,849,772 and \$148,865,699, respectively, against which it had received collateral of approximately \$337,371,274 and \$151,843,013, respectively.

The System owns 1.1% of the ISBI Commingled Fund as of June 30, 1990.

(c) Fixed Assets

Expenditures for fixed assets are capitalized and depreciated over their estimated useful lives.

(d) Actuarial Experience Review

In accordance with Illinois Revised Statutes, an actuarial experience review is to be performed at least once every

five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was performed as of June 30, 1987.

(e) Administrative Expenses

Expenses related to the administration of the System are budgeted and approved by the System's Board of Trustees. Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are borne 40% by the General Assembly Retirement System and 60% by the Judges' Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 1990 and 1989, were \$119,787 and \$101,651, respectively.

(4) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of participant service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the General Assembly Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS. The measure is the same as the actuarial funding method used to determine contributions to the System discussed in Note 5.

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1990. Significant actuarial assumptions used include (a) rates of return on the investment of present and future assets of 8.0% per year, compounded annually, (b) projected salary increase of 6% per year, compounded annually, (c) mortality rates based on the UP-1984 Mortality Table, and (d) assumed age at retirement ranging from 55 to 70, based upon recent history with the System.

At June 30, 1990 and 1989, the unfunded pension benefit obligation was \$45,180,960 and \$31,157,451 as follows:

	1990	1989
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits, including inactive participants	\$ 46,758,991	\$ 39,064,737
Current Participants:		
Accumulated participant contributions	6,759,696	5,856,914
Employer-financed vested	16,709,618	12,316,308
Employer-financed nonvested	8,395,332	5,596,998
Total Pension benefit obligation	\$ 78,623,637	\$ 62,834,957
Net assets available for benefits, at cost (market value at June 30, 1990 \$37,012,915; June 30, 1989 \$35,129,825)	33,442,677	31,677,506
Unfunded pension benefit obligation	<u>\$ 45,180,960</u>	<u>\$ 31,157,451</u>

Public Acts 86-0027 and 86-0273, which were signed into law on July 7 and August 23, 1989, respectively, enacted several changes in the benefit provisions of the System effective January 1, 1990. These changes provide for: (1) the elected state executive officers to participate based on total compensation without the previous limitation whereby compensation could not exceed the salary paid the highest salaried officer of the General Assembly; (2) the accrual of 3% automatic annual increases for participants who remain in service after attaining 20 years of creditable service beginning on the January 1 next following the date upon which the participant (a) attains age 55, or (b) attains 20 years of creditable service, whichever occurs later; (3) 3% automatic annual increases in retirement annuities based on the current amount of annuity instead of the originally granted amount of annuity; (4) a 3% automatic annual increase in the amount of survivors' annuities

based on the current amount of annuity and; (5) minimum survivors' annuities to qualified survivors of \$300 per month.

These benefit changes enacted under Public Acts 86-0027 and 86-0273 had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by \$9,107,450 during fiscal year 1990.

(5) Contributions Required and Contributions Made

In previous fiscal years, employer contributions made by the State of Illinois were based on the payout requirements of the System and were not actuarially determined. Prior to fiscal year 1988, employer contributions were made at a level of approximately 60% of the payout requirements of the System. During fiscal years 1988 and 1989, the level of employer contributions decreased to approximately 44% of the payout requirements of the System.

Public Act 86-0273, which was signed into law on August 23, 1989, enacted a funding policy under which, starting with fiscal year 1990, the employer contributions made by the State of Illinois shall be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state employer contribution shall be an amount that is sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method.

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method. The same actuarial assumptions were used to determine the contribution requirements as are used to compute the pension benefit obligation discussed in Note 4. For fiscal years prior to 1990, the required employer contributions were computed in accordance with the Board of Trustees' approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal year 1990, required employer contributions were actuarially determined in accordance with the funding policy legislated by Public Act 86-0273. The state, however, has not followed the funding policy established by law for the fiscal year ended June 30, 1990.

It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the rate certified by the Board of Trustees.

The total amount of actuarially determined State of Illinois employer contributions required for the fiscal year ended June 30, 1990 amounted to \$2,376,310. However, the state's employer contributions were not made in accordance with the actuarially determined contribution requirements for fiscal year 1990. The total amount of employer contributions made by the state was \$2,072,600 and consisted of (a) \$1,157,371 normal cost and (b) \$915,229 amortization of the unfunded actuarial accrued liability.

Schedule of Contributions Required and Contributions Made

	1990	1989	1988	1987
Covered Payroll	\$ 7,254,510	\$ 6,907,676	\$ 6,873,250	\$ 6,643,710
Required Employer Contributions	\$ 2,376,310	\$ 3,514,623	\$ 3,273,090	\$ 3,296,451
Actual Employer Contributions	\$ 2,072,600	\$ 1,997,500	\$ 1,970,000	\$ 2,214,100
Actual Employer Contribution Rate	28.6%	28.9%	28.7%	33.3%
Board of Trustees Recommended Contribution Rate	32.8%	50.9%	47.6%	49.6%
Participant Contributions	\$ 1,002,258	\$ 869,635	\$ 796,393	\$ 767,483
Participant Contribution Rate	13.8%	12.6%	11.6%	11.6%

(6) Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 23-24.

(7) Administrative Expenses

A summary of the administrative expenses for the General Assembly Retirement System for fiscal years 1990 and 1989 is as follows:

	1990	1989
Personal services	\$ 84,643	\$ 71,348
Retirement contributions	5,252	4,495
Social Security contributions	4,758	2,216
Group insurance	4,280	2,520
Contractual services	22,149	19,325
Travel	1,526	1,046
Printing	3,602	400
Commodities	684	705
Telecommunications	1,298	1,276
Electronic Data Processing	3,737	7,126
Depreciation	1,760	1,804
Other	(6,837)	1,000
Total	<u>\$ 126,852</u>	<u>\$113,261</u>

(8) Equipment

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment and certain electronic data processing equipment - 6 to 10 years.

A summary of the changes in fixed assets for fiscal years 1990 and 1989 is as follows:

	1990			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 18,498	\$ 6,703	\$ (2,329)	\$ 22,872
Accumulated Depreciation	(4,966)	(1,760)	1,577	(5,149)
Equipment, net	<u>\$ 13,532</u>	<u>\$ 4,943</u>	<u>\$ (752)</u>	<u>\$ 17,723</u>
	1989			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 18,407	\$ 762	\$ (671)	\$ 18,498
Accumulated Depreciation	(3,811)	(1,804)	649	(4,966)
Equipment, net	<u>\$ 14,596</u>	<u>\$ (1,042)</u>	<u>\$ (22)</u>	<u>\$ 13,532</u>

(9) Accrued Compensated Absences

Employees of the General Assembly Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. The value of accrued compensated absences as of June 30, 1990 and 1989 were \$8,735 and \$16,198, respectively.

(10) Analysis of Changes in Fund Balances - Reserved

The funded statutory reserves of the General Assembly Retirement System are composed of three components as follows:

(a) Reserve for Participants' Contributions - This reserve consists of participants' accumulated contributions for retirement annuities, survivors' annuities and automatic annual increases.

(b) Reserve for Automatic Annuity Increase - This reserve represents participants' accumulated contributions for the automatic annuity increase, plus an equal amount contributed by the State of Illinois, plus 4% interest credited on the fiscal year beginning balance, less automatic annuity increase benefits and refunds paid. This reserve is no longer statutorily required and was therefore eliminated during the fiscal year ending June 30, 1990.

(c) Reserve for Future Operations - This reserve is the balance remaining in the General Assembly Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the General Assembly Retirement System.

GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS
Statements of Changes in Fund Balances (Reserved)
Years ended June 30, 1990 and 1989

	Reserve for Participants' Contributions	Automatic Annuity Increase	Future Operations	Total Fund Balance
Balance at June 30, 1988	\$ 6,177,939	\$ 683,256	\$ 23,245,191	\$ 30,106,386
Add (deduct):				
Excess (deficiency) of revenue over expenses	742,180	(249,922)	1,078,862	1,571,120
Reserve transfers:				
Accumulated contributions of participants who retired or died with eligible survivor during the year	(171,851)	--	171,851	--
Interest credited to automatic annuity increase reserve	--	27,330	(27,330)	--
Balance at June 30, 1989	\$ 6,748,268	\$ 460,664	\$ 24,468,574	\$ 31,677,506
Add (deduct):				
Excess (deficiency) of revenue over expenses	881,317	--	883,854	1,765,171
Reserve transfers:				
Accumulated contributions of participants who retired or died with eligible survivor during the year	(62,763)	--	62,763	--
Transfer to eliminate reserve for automatic annuity increase no longer required by statutes	670,409	(460,664)	(209,745)	--
Balance at June 30, 1990	<u>\$ 8,237,231</u>	<u>\$ --</u>	<u>\$ 25,205,446</u>	<u>\$ 33,442,677</u>

(11) Pension Disclosure

All of the System's full-time employees who are not eligible for another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a component unit of the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state agencies, including the System, participate on a cost-sharing basis. The financial position and results of operations of the SERS for FY1990 and FY1989 and the related GASB Statement 5 employer disclosures are included in the State's Comprehensive Annual Financial Report for the years ended June 30,

1990 and 1989, respectively. The SERS also issues a separate component unit financial report (CUFR).

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, is included as an integral part of the SERS CUFR. Also included is a discussion of employer and employee obligations to contribute, the authority under which those obligations are established, as well as an explanation of the pension benefit obligation. The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits.

The pension benefit obligation at June 30, 1990 and June 30, 1989 for the SERS as a whole, determined through an actuarial valuation at that date was \$4,538.1 million and \$3,752.1 million, respectively. The SERS net assets available for benefits on these respective dates (valued at cost) were \$2,795.6 million and \$2,580.2 million, leaving unfunded pension benefit obligations of \$1,742.5 million and \$1,171.9 million. The System's FY1990 and FY1989 contribution requirement represented .004% and .003%, respectively of total contributions required of all state agency/department employers participating in the SERS.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued CUFRs for the years ended June 30, 1990 and June 30, 1989, respectively.

Pertinent financial information relating to the System's participation in SERS is summarized as follows:

The System's covered payrolls for FY1990 and FY1989 were \$84.6 thousand and \$71.3 thousand and the payrolls for all System employees were \$84.6 thousand and \$71.3 thousand, respectively.

The System's (i.e., the employers') actuarially determined contribution requirements for FY1990 and FY1989 were \$5.3 thousand and \$4.5 thousand, respectively, or 6.2% and 6.3% of the System's covered payrolls. For FY1990, the System's and employee contributions actually made were \$5.3 thousand and \$3.1 thousand, respectively, which represents 6.2% and 3.7%, respectively, of the current year covered payroll. For FY1989, the System's and employee contributions actually made were \$4.5 thousand and \$4.6 thousand, respectively, which represents 6.3% and 6.4%, respectively, of the covered payroll.

(12) Change in Reporting Requirements

The Governmental Accounting Standards Board (GASB) issued Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting" effective for fiscal years beginning after December 15, 1989 with earlier application encouraged but not required. This Statement established certain standards for the reporting of entity cash flows.

The provisions of GASB Statement No. 9 are applicable to proprietary funds, nonexpendable trust funds, and governmental entities that use proprietary fund accounting. Public employee retirement systems (PERS) and pension trust funds are exempt from the requirement to present a statement of cash flows. In addition, pension trust funds are not required to present a statement of changes in financial position.

Since the GASB encourages earlier application of GASB Statement No. 9, the System Trust Fund has elected to early implement the requirements of Statement No. 9 and, therefore, is not including a statement of changes in financial position for the fiscal years ended June 30, 1990 and 1989.

Analysis of Funding Progress

Fiscal Year	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation**	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1987	\$29,140,876	\$60,635,325	48.1%	\$31,494,449	\$6,643,710	474.0%
1988	30,106,386	64,160,481	46.9%	34,054,095	6,873,250	495.5%
1989	31,677,506	62,834,957	50.4%	31,157,451	6,907,676	451.1%
1990	33,442,677	78,623,637	42.5%	45,180,960	7,254,510	622.8%

* At cost
 ** The pension benefit obligation information is not available for fiscal years prior to 1987.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

Revenues by Source and Expenses by Type

Revenues by Source						
Fiscal Year Ended June 30	Participants' Contributions	Employer Contributions			Income from Investments	Total
		State of Illinois	Transferred from Reciprocating Systems	Total		
1981	\$ 736,918	\$ 2,233,000	\$ 16,683	\$ 2,249,683	\$ 1,475,142	\$ 4,461,743
1982	766,686	1,450,000	11,637	1,461,637	1,577,311	3,805,634
1983	786,705	2,061,100	58,181	2,119,281	2,877,001	5,782,987
1984	658,899	1,524,800	--	1,524,800	2,204,477	4,388,176
1985	679,000	2,215,800	2,932	2,218,732	1,516,230	4,413,962
1986	1,059,024	2,216,200	125,212	2,341,412	3,416,960	6,817,396
1987	767,483	2,214,100	213	2,214,313	3,064,668	6,046,464
1988	796,393	1,970,000	--	1,970,000	1,933,098	4,699,491
1989	869,635	1,997,500	--	1,997,500	2,555,317	5,422,452
1990	1,002,258	2,072,600	74,401	2,147,001	2,665,883	5,815,142

Expenses by Type				
Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1981	\$ 1,866,302	\$ 104,560	\$ 62,261	\$ 2,033,123
1982	2,094,792	56,797	67,284	2,218,873
1983	2,389,904	185,106	72,547	2,647,557
1984	2,712,913	71,902	76,642	2,861,457
1985	2,955,395	118,711	79,401	3,153,507
1986	3,200,212	42,316	86,763	3,329,291
1987	3,461,212	80,202	103,150	3,644,564
1988	3,618,087	16,717	99,177	3,733,981
1989	3,682,411	55,660	113,261	3,851,332
1990	3,880,692	42,427	126,852	4,049,971

Analysis of Employer Contributions - Fiscal Year 1988 through 1990

Fiscal Year (A)	(1) Covered Payroll	(2) State of Illinois Employer Contributions Required (B)	(3) State of Illinois Employer Contributions Required as a % of Covered Payroll (2) ÷ (1)	(4) State of Illinois Employer Contributions Received	(5) State of Illinois Employer Contributions Received as a % of Covered Payroll (4) ÷ (1)	(6) Contributions Required in Excess of Contributions Received (2) - (4)
1988	\$ 6,873,250	\$ 3,273,090	47.6%	\$ 1,970,000	28.7%	\$ 1,303,090
1989	6,907,676	3,514,623	50.9%	1,997,500	28.9%	1,517,123
1990	7,254,510	2,376,310	32.8%	2,072,600	28.6%	303,710

(A) = Prior to Fiscal Year 1988, the Actuary did not determine an "Employer Contribution Required" amount.

(B) = For Fiscal Year 1988 and 1989, the State of Illinois required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For Fiscal Year 1990, required employer contributions were computed in accordance with Public Act 86-0273 which was signed into law on August 23, 1989. Public Act 86-0273 enacted a funding plan under which, starting with Fiscal Year 1990, the state's contribution shall be increased incrementally over a seven year period so that by Fiscal Year 1996, the minimum state contribution shall be an amount that is sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method.

SUMMARY OF REVENUES BY SOURCE**Years Ended June 30, 1990 and 1989**

	<u>1990</u>	<u>1989</u>
Contributions:		
Participants	\$ 864,927	\$ 867,817
Interest paid by participants	57,918	1,818
Transferred from reciprocating systems	79,413	--
Total participants contributions	<u>\$ 1,002,258</u>	<u>\$ 869,635</u>
General Revenue Fund	\$ 2,019,000	\$ 1,933,700
State Pension Fund	53,600	63,800
Paid by reciprocating systems	74,401	--
Total employer contributions	<u>\$ 2,147,001</u>	<u>\$ 1,997,500</u>
Total Contributions revenue	<u>\$ 3,149,259</u>	<u>\$ 2,867,135</u>
Investments:		
Net investments income	\$ 1,879,972	\$ 1,792,392
Interest earned on cash balances	81,973	85,808
Net realized gain on sale of investments	703,938	677,117
Total Investments revenue	<u>\$ 2,665,883</u>	<u>\$ 2,555,317</u>
Total Revenue	<u>\$ 5,815,142</u>	<u>\$ 5,422,452</u>

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS**Years Ended June 30, 1990 and 1989**

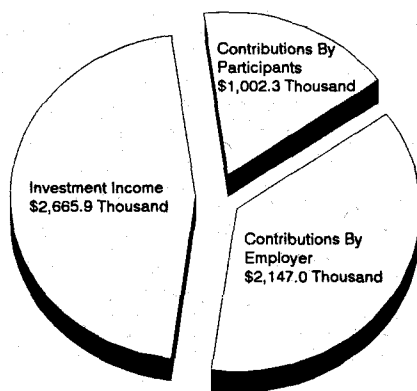
	<u>1990</u>	<u>1989</u>
Cash balance, beginning of year	\$ 348,265	\$ 494,346
Receipts:		
Participant contributions	\$ 1,061,268	\$ 812,050
Employer contributions:		
General Revenue Fund	2,019,000	1,933,700
State Pension Fund	53,600	63,800
Paid by reciprocating systems	74,401	--
Interest income on cash balances	80,620	85,539
Participants' deferred service credit payments	3,380	--
Transfer from Illinois State Board of Investment	2,425,000	800,000
Total cash receipts	<u>\$ 5,717,269</u>	<u>\$ 3,695,089</u>
Disbursements:		
Benefit payments:		
Retirement annuities	\$ 3,162,303	\$ 3,046,454
Survivors' annuities	715,176	635,166
Refunds	41,914	55,660
Administrative expenses	132,858	103,890
Transfer to Illinois State Board of Investment	1,100,000	--
Total cash disbursements	<u>\$ 5,152,251</u>	<u>\$ 3,841,170</u>
Cash balance, end of year	<u>\$ 913,283</u>	<u>\$ 348,265</u>

REVENUES

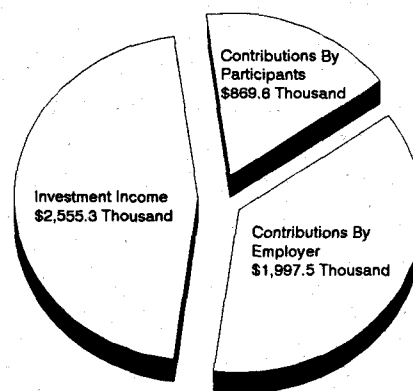
Total revenue of \$5,815.2 thousand for FY 1990 was a \$392.8 thousand increase from the FY 1989 level of \$5,422.4 thousand. Net income from investments and net realized gains on sales of investments were greater than the prior fiscal year by \$110.6 thousand. Employer contributions show an increase of 7.5% (\$149.5 thousand) and participant contributions were \$132.7 thousand (15.3%) higher than for FY 1989 primarily due to participants electing to transfer service credits from reciprocating systems during FY 1990.

Revenue Source	FY 90 (Thousands)	FY 89 (Thousands)	Increase/(Decrease)	
			Amount	Percentage
Participant Contributions	\$ 1,002.3	\$ 869.6	\$ 132.7	15.3%
Employer Contributions	2,147.0	1,997.5	149.5	7.5%
Investment Income	2,665.9	2,555.3	110.6	4.3%
Total	<u>\$ 5,815.2</u>	<u>\$ 5,422.4</u>	<u>\$ 392.8</u>	<u>7.2%</u>

REVENUES BY SOURCE 1990
TOTAL REVENUES
\$5,815.2 Thousand



REVENUES BY SOURCE 1989
TOTAL REVENUES
\$5,422.4 Thousand



Gross investment income for 1990 of \$1,992,559, less the Investment Board's administrative expenses of \$112,587, resulted in net investment income of \$1,879,972. This amount, when combined with the net realized gain on sale of investments of \$703,938, provided net revenue from investments of \$2,583,910. Net cash transfers from the Illinois State Board of Investment were \$1,325,000 during FY 1990. The balance of investments at cost increased by \$1,258,910 from June 30, 1989 thru June 30, 1990. The following table shows a comparison of investment operations for FY 1990 and FY 1989.

	1990	1989	Increase/(Decrease)	
			Amount	Percentage
Balance at beginning of year, at cost	\$ 31,290,392	\$ 29,620,883	\$ 1,669,509	5.6%
Cash transferred from ISBI (net)	(1,325,000)	(800,000)	525,000	65.6%
Investment income:				
Commingled Fund income	\$ 1,992,559	\$ 1,877,847	\$ 114,712	6.1%
Less Expenses	(112,587)	(85,455)	27,132	31.8%
Net investment income	<u>\$ 1,879,972</u>	<u>\$ 1,792,392</u>	<u>\$ 87,580</u>	<u>4.9%</u>
Distributed Net Realized Gain on Sale of Investments	<u>\$ 703,938</u>	<u>\$ 677,117</u>	<u>\$ 26,821</u>	<u>4.0%</u>
Balance at end of year, at cost	<u>\$ 32,549,302</u>	<u>\$ 31,290,392</u>	<u>\$ 1,258,910</u>	<u>4.0%</u>
Market value.....	<u>\$ 36,119,540</u>	<u>\$ 34,742,711</u>	<u>\$ 1,376,829</u>	<u>4.0%</u>

In addition, interest on the average balance in the System's account for FY 1990 was \$81,973 compared to \$85,808 during FY 1989.

EXPENSES

The number of participants receiving retirement annuities on June 30, 1990 was 1.5% below the June 30, 1989 level while the dollar cost of these annuities increased by 3.8% over the FY 1989 level. Post retirement increases granted each January 1 resulted in retirement annuity costs rising at a more rapid pace than the number of annuitants. Survivor annuities decreased by 1.6% in number with a 12.8% increase in dollar costs primarily due to annual increases granted January 1 and the payment of minimum survivors' annuities of \$300 per month effective January 1, 1990.

	FY 90 (Thousands)	FY 89 (Thousands)	Increase/(Decrease)	
			Amount	Percentage
Retirement annuities	\$ 3,163.6	\$ 3,046.4	\$ 117.2	3.8%
Survivors' annuities	717.1	636.0	81.1	12.8%
Refunds	42.4	55.6	(13.2)	(23.7%)
Administrative expense	126.9	113.3	13.6	12.0%
TOTAL EXPENSES	\$ 4,050.0	\$ 3,851.3	\$ 198.7	5.2%

NUMBER OF RECURRING BENEFIT PAYMENTS

	FY Ended June 30, 1989	New Claims Processed During FY 90	Benefits Ceased During FY 90	FY Ended June 30, 1990	Increase/(Decrease)	
					Amount	Percentage
Retirement	199	3	6	196	(3)	(1.5%)
Survivors	123	3	5	121	(2)	(1.6%)
Reversionary	3	--	--	3	--	0.0%
TOTALS	325	6	11	320	(5)	(1.5%)

RESERVES

As of June 30, 1990, the funds available for payment of current and future benefits were \$33,442.7 thousand as shown in the following schedule:

Assets	FY90 (Thousands)	FY89 (Thousands)	Increase/ (Decrease)
Cash	\$ 913.3	\$ 348.3	\$ 565.0
Receivables (less payables)	(37.6)	25.3	(62.9)
Investments	32,549.3	31,290.4	1,258.9
Fixed Assets (net of accumulated depreciation)	17.7	13.5	4.2
NET ASSETS	\$ 33,442.7	\$ 31,677.5	\$ 1,765.2

Total System revenues for FY 1990 of \$5,815.2 thousand less expenditures of \$4,050.0 thousand resulted in a net increase to reserves of \$1,765.2 thousand.

Reserves	FY90 (Thousands)	FY89 (Thousands)	Increase/ (Decrease)
Participant Contributions	\$ 8,237.2	\$ 6,748.3	\$ 1,488.9
Automatic Annuity Increase	--	460.6	(460.6)
Future Operations	25,205.5	24,468.6	736.9
TOTAL RESERVES	\$ 33,442.7	\$ 31,677.5	\$ 1,765.2

Participant contributions transferred to the Reserve for Future Operations due to retirement or death of active participants during the year amounted to \$62.8 thousand.

Actuarial Section

Actuary's Report

Introduction

Actuarial Cost Method and Summary of Major Actuarial Assumptions

Valuation Results

Short-term Solvency Test

Analysis of Funding

Reconciliation of Unfunded Actuarial Liability

Beneficiaries Added to and Removed From Rolls



S. Goldstein and Associates
consulting actuaries

One North LaSalle Street
Suite 4220
Chicago, Illinois 60602
(312) 726-5877

October 24, 1990

Board of Trustees and Executive Secretary
General Assembly Retirement System of Illinois
2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794

ACTUARIAL CERTIFICATION

I have completed the annual actuarial valuation of the General Assembly Retirement System of Illinois as of June 30, 1990. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system. The same actuarial assumptions were used for the June 30, 1990 valuation as were used for the June 30, 1989 valuation.

Senate Bill 1258 which was signed into law on July 7, 1989 as Public Act 86-0027 and Senate Bill 95 which was signed into law on August 23, 1989 as Public Act 86-0273 made a number of changes in the provisions of the system. The major changes enacted under Public Act 86-0027 and Public Act 86-0273 are as follows: (1) For elected State executive officers, salary for pension purposes shall be the final rate of salary; (2) Provides that the 3% automatic annual increase in retirement annuity shall be based on the current amount of annuity instead of the original amount of annuity; (3) Provides for 3% automatic annual increases in survivor's annuities, based on the current amount of annuity; (4) Provides for increases in a member's earned retirement annuity of 3% per year, commencing one year following the later of (a) completion of 20 years of service, and (b) attainment of age 55; and (5) Provides that annual State appropriations shall be sufficient to meet the normal cost and amortize the unfunded liability over 40 years as a level percent of payroll, after an initial phase-in period ending June 30, 1996. I have estimated that the benefit changes enacted under Public Act 86-0027 and Public Act 86-0273 resulted in an increase of approximately 13.1% in the system's total actuarial liability.

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every five years and recommend as a result of such investigation the actuarial assumptions to be adopted. As the actuary, I have completed such an experience analysis for the three years ending June 30, 1987 and the assumptions used for the current valuation were based on that study. I believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.



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consulting actuaries

Contribution rates have been determined providing for the normal cost plus an amortization of the unfunded actuarial liability as required under Public Act 86-0273. Normal cost rates are expected to remain constant as a percent of payroll, while the amortization contribution rate will increase in equal annual increments until the 1996 fiscal year is reached. The total contribution rate can thus be expected to rise gradually until fiscal year 1996, remain level until fiscal year 2035, and then drop to a constant normal cost rate.

Employer contributions in recent years have been less than that required under this new financing plan. Fiscal year 1990 was the first year for which the financing plan established under Public Act 86-0273 was in effect. For fiscal year 1991, employer contributions are expected to fall \$277,400 short of the amount required under Public Act 86-0273.

The asset values used for the valuation were based on the asset information reported by the system. For purposes of the valuation, the book value of the assets of the system (assets valued at cost), less the amount of liabilities, was used.

In my opinion, the following schedule of valuation results fairly presents the financial condition of the General Assembly Retirement System of Illinois as of June 30, 1990. The contribution rates determined are in compliance with the provisions of the funding plan enacted under Public Act 86-0273.

Respectfully submitted,

Sandor Goldstein
Fellow of the Society of Actuaries
Enrolled Actuary No. 3402

INTRODUCTION

For many years, the state's contribution to the System has been based on projected benefit payments (payout). For fiscal year 1990, regular state appropriations were made at a level of 44% of the System's projected payout.

Annually, the System's actuarial consultants perform a valuation of the liabilities and reserves of the System in order to make a determination of the amount of contributions required from the state. These results are then certified to the Board.

The Board, in turn, has the duty of certifying a rate of contribution, based upon participants' compensation, required to be paid to the System during the succeeding fiscal year. The employers' contribution amount, together with participants' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Article 2-146 of the Illinois Revised Statutes.

Based upon the state's funding method described above, the System, in recent years, has not received the minimum actuarially determined employer contribution amount.

The underfunding of employer contributions places undue pressure on one of the other major sources of revenue to the System, namely income from investments, to consistently provide an increasing percentage of total fund revenue. In recent years, the higher than assumed rate of return on investments distorts the fact that employer contributions have not kept pace with prior, current, and future estimated benefit costs.

In an attempt to address the pension funding dilemma, the state legislature passed Public Act 86-0273 in August, 1989, which provided for a standardized funding method (projected unit credit) and a specified term for the amortization of prior unfunded pension costs (40 years, level percentage of payroll). There is a seven-year phase in period of the required employer contributions to attain the 40-year amortization level. The phase in period began in fiscal year 1990, however, the state did not adequately fund the System with the actuarially required contributions.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The System utilizes the projected unit credit cost method. Under this method, the actuarial liability is the actuarial present value of that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. The normal cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement. Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. However, for purposes of determining future employer contributions, the actuarial gains and losses are amortized over a 40 year period as a level percentage of payroll.

A description of the actuarial assumptions utilized for fiscal years 1990 and 1989 follows:

Mortality Rates: The UP-1984 Mortality Table was used for the valuation.

Termination Rates: Termination rates based on the recent experience of the System were used. The following termination rates were used:

Age	Rate of Termination
20-54	.080
55 and over	.000

Disability Rates: Disability rates based on the recent experience of the System as well as on published disability rate tables were used. The following is a sample of the disability rates that were used for the valuation:

Age	Rate of Disability
30	.00057
35	.00064
40	.00083
45	.00115
50	.00170

Retirement Rates: Rates of retirement for each age from 55 to 70 based on the recent experience of the System were used. The following are samples of the rates of retirement that were used:

Age	Rate of Retirement
55	.2
60	.1
65	.1
70	1.0

The above retirement rates are equivalent to an average retirement age of approximately 62.

Salary Increase: A salary increase assumption of 6.0% per year, compounded annually, was used.

Interest Rate: An interest rate assumption of 8.0% per year, compounded annually, was used.

Marital Status: It was assumed that 75% of active participants will be married at the time of retirement.

Spouse's Age: The age of the spouse was assumed to be 4 years younger than the age of the participant.

VALUATION RESULTS

Actuarial Liability (Reserves)	FY-90	FY-89
For Active Participants:		
Basic retirement annuity	\$ 16,897,467	\$ 12,859,034
Annual increase in retirement annuity	4,201,359	2,171,248
Pre-retirement survivors' annuity	1,640,260	1,153,567
Post-retirement survivors' annuity	3,457,514	2,590,213
Withdrawal benefits	5,497,032	4,843,785
Disability benefits	171,014	152,373
Total	\$ 31,864,646	\$ 23,770,220
For Participants Receiving Benefits:		
Retirement annuities	\$ 34,357,361	\$ 29,220,187
Survivor annuities	7,054,215	4,842,277
Total	\$ 41,411,576	\$ 34,062,464
For Inactive Participants	\$ 5,347,415	\$ 5,002,273
Total Actuarial Liability	\$ 78,623,637	\$ 62,834,957
Net Assets, Book Value (Cost)	33,442,677	31,677,506
Unfunded Actuarial Liability	\$ 45,180,960	\$ 31,157,451

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active participant contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active participants. In a system that has been following level percent of payroll financing, the liabilities for active participant contributions on deposit (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

The State of Illinois, however, has funded the System based on benefit payout, a level which increases over time reflecting a larger work force and higher salary levels.

Computed Actuarial Values

Fiscal Year	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
	(1)	(2)	(3)	Net Real Assets	(1)	(2)	(3)
	Active and Inactive Participant Contributions	Retirement and Survivor Annuitants	Active and Inactive Participants (Employer Financed Portion)				
1983	\$ 4,129,682	\$ 23,637,775	\$ 20,069,286	\$ 20,463,697	100.0%	69.1%	0.0%
1984	4,539,234	25,818,124	22,833,250	21,990,416	100.0%	67.6%	0.0%
1985	4,612,815	27,616,936	26,432,984	23,250,871	100.0%	67.5%	0.0%
1986	5,373,363	30,829,965	30,247,333	26,738,976	100.0%	69.3%	0.0%
1987	6,414,817	36,673,471	17,547,037	29,140,876	100.0%	62.0%	0.0%
1988	6,861,195	37,155,381	20,143,905	30,106,386	100.0%	62.6%	0.0%
1989	7,208,932	34,062,464	21,563,561	31,677,506	100.0%	71.8%	0.0%
1990	8,237,231	41,411,576	28,974,830	33,442,677	100.0%	60.9%	0.0%

ANALYSIS OF FUNDING

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active participant payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker. (It should be noted that the improvement reflected in the following schedule for recent years results primarily from significant realized gains on the sale of investments and the change in the actuarial interest rate assumption from 7.5% to 8.0% during fiscal year 1989.)

Fiscal Year	Total Actuarial Liability	Net Assets	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Annual Covered Payroll
1983	\$ 47,836,743	\$ 20,463,697	42.8%	\$ 27,373,046	\$ 5,545,500	493.6%
1984	53,190,608	21,990,416	41.3%	31,200,192	5,524,500	564.8%
1985	58,662,735	23,250,871	39.6%	35,411,864	5,985,000	591.7%
1986	66,450,661	26,738,976	40.2%	39,711,685	6,480,500	612.8%
1987	60,635,325	29,140,876	48.1%	31,494,449	6,643,710	474.0%
1988	64,160,481	30,106,386	46.9%	34,054,095	6,873,250	495.5%
1989	62,834,957	31,677,506	50.4%	31,157,451	6,907,676	451.1%
1990	78,623,637	33,442,677	42.5%	45,180,960	7,254,510	622.8%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	<u>FY 90</u>	<u>FY 89</u>
Unfunded actuarial liability at Beginning of FY	\$ 31,157,451	\$ 34,054,095
Employer contribution requirement of normal cost plus interest on the unfunded liability	\$ 3,362,095	\$ 3,514,623
Actual employer contribution for the year	<u>2,072,600</u>	<u>1,997,500</u>
Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability		
(Decrease) in unfunded liability due to investment return greater than assumed	(167,711)	(301,000)
Increase in unfunded liability due to benefit increases enacted under Public Act 86-0027 and 86-0273	9,107,450	--
(Decrease) in unfunded liability due to increase in interest rate assumption from 7.5% to 8.0%	+ --	(3,360,420)
Increase/(Decrease) in unfunded liability due to salary increases greater/(less) than assumed	(385,078)	1,192,000
Increase/(Decrease) in unfunded liability due to other sources	<u>4,179,353</u>	<u>(1,944,347)</u>
Total Actuarial (Gains) Losses		
Net Increase/(Decrease) in unfunded liability for the year	=	
Unfunded actuarial liability at End of FY	<u>\$ 45,180,960</u>	<u>\$ 31,157,451</u>

BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Annuitants				Survivors*				Total
	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	
1981	146	29	9	166	98	9	7	100	266
1982	166	7	4	169	100	7	3	104	273
1983	169	34	12	191	104	9	4	109	300
1984	191	7	11	187	109	12	4	117	304
1985	187	16	5	198	117	5	3	119	317
1986	198	9	8	199	119	6	2	123	322
1987	199	17	10	206	123	6	3	126	332
1988	206	5	13	198	126	6	6	126	324
1989	198	6	5	199	126	4	4	126	325
1990	199	3	6	196	126	3	5	124	320

*Includes Reversionary annuities

Investment Section

Investment Report

Investment Portfolio Summary

Analysis of Investment Performance

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI Board). The ISBI Board was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. At the end of the fiscal year, in addition to the assets of the General Assembly Retirement System, the ISBI Board also managed the investment function for the State Employees' and Judges' Retirement Systems. As of June 30, 1990, total net assets under management valued at market, amounted to \$3.284 billion. Of the total assets under management, \$36.1 million or 1.1% represented assets of the General Assembly Retirement System.

Management Approach

The ISBI Board manages the Fund in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI Board has established a long-range investment policy which, in line with the prudent person rule, affirms that the Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the Fund, within prudent risk parameters. Further, it is the ISBI Board's philosophy that the assets owned by the participating systems and managed by the ISBI Board are held for the exclusive purpose of providing benefits to the participants and annuitants of the respective retirement systems and their beneficiaries. In line with this philosophy, the ISBI Board from time to time evaluates its asset allocation which is considered by many to be the single most important factor in pension investment management. The three major asset classes are: bonds, equities and cash; with smaller positions being allocated to real estate, venture capital and other alternative investments.

Total Fund Results

The Illinois State Board of Investment Commingled Fund (ISBI Fund), totaled \$3.284 billion at market value at the end of its fiscal year, June 30, 1990.

Although this represents an increase in market value of \$235 million, fiscal year 1990 was disappointing in that the rate of return was 8.0%. The ISBI Board's long-term strategy has been very defensive for some time, in view of the fact there has been relatively little, if any, new investment capital received by the ISBI Board from its member systems. On a comparative basis with other funds, the ISBI Fund's assets are deployed in a broader diversification; a smaller percentage of the ISBI Fund's total assets are allocated to equity securities; and there is a greater concentration of equity securities being managed by "value" oriented external managers - all of these factors, in the ISBI Board's opinion, reduce risk and volatility, but also may result in lower rates of return, particularly during periods when equities generally perform well.

Nonetheless, when viewed over the eight year period since the adoption of the prudent person legislation, the ISBI Fund has produced a compounded annual rate of return of 14.1% and net assets have increased by \$2.2 billion, of which only \$115 million represented new contributions from member systems.

During the fiscal year 1990, the ISBI Board completed its previously announced long-term strategy of engaging active external managers to manage the ISBI Fund's equity portfolio. Except for an \$80 million internally managed "growth" portfolio, all of the ISBI Fund's equity securities are now managed externally by domestic, international or global active managers.

As the last step in implementing the foregoing strategy, the ISBI Board, assisted by Pension Consulting Alliance, selected four external domestic managers, all of whom have different investment philosophies and all of whom, except Disciplined Investment Advisors, are new managers. Those selected were: Disciplined Investment Advisors, The Marshall Plan, Southeastern Asset Management, and T-K Capital.

Fixed Income

The return of the fixed income component for the fiscal year was negatively impacted by the (1.5%) return on high-yield bond holdings. Since the ISBI Board began any significant investing in the high-yield sector in November, 1987, the compound annual return through June 30, 1990, for the high-yield component has been 8.5%.

Comparative returns of the composite of the funds allocated to the fixed income managers and the benchmark indices are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	5.9%	9.0%	10.1%
Shearson Lehman G/C	7.1%	9.0%	10.3%
Shearson Lehman Aggregate	7.8%	9.4%	10.6%

Equity

The equity component underwent significant changes during the fiscal year. The five global and international managers selected by the ISBI Board at the end of the last fiscal year were funded \$50 million each during the first half of the fiscal year. Adding the preexisting global account of \$51 million managed by Templeton, the total international/global allocation amounted to \$301 million or about 20% of the equity portion of the ISBI Fund. The resources were derived from the two internally managed domestic equity portfolios, the larger one of which was permanently discontinued. In addition, one externally managed domestic equity portfolio was discontinued for performance reasons. The four new domestic equity managers are being funded in the first quarter of fiscal year 1991. As of June 30, 1990, funds under management by domestic, global, and international equity managers totaled \$1,166 million, \$209 million, and \$100 million, respectively.

The composite return of the funds managed by all of the equity managers was 10.5% versus the S&P 500's return of 16.4% for the fiscal year. Returns for additional time periods are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	10.5%	7.3%	14.0%
S&P 500	16.4%	9.3%	17.3%

Real Estate

The combined real estate portfolio is well diversified by property location, having 25% of its assets in the Western States, 13% in the Midwest, 23% in the South, 17% in the East, 18% in Canada, and 3% in the United Kingdom. The allocation according to property type is 32% retail, 25% office, 15% apartment, 14% warehouse and research and development, with the remaining 14% in mixed use, land and miscellaneous. No new investments were approved by the ISBI Board in fiscal year 1990. The market value of the real estate portfolio amounts to 10.3% of the total ISBI Fund, which is at the ISBI Boards' target allocation for real estate.

Returns for the combined real estate portfolio compared to the benchmark index for unleveraged institutional grade property returns are as follows:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	6.1%	7.7%	8.2%
NCREIF	5.3%	6.3%	6.5%

Non-Marketable Securities

During the fiscal year, the ISBI Board committed \$15 million to Premiere Partners I Limited Partnership which will invest in farmland primarily in Illinois and Indiana. This venture will hold title on an unleveraged basis in prime farmland enhancing the total portfolio's diversification while providing a hedge against inflation. The venture capital portion of this category which is represented by investments in Frontenac Venture IV & V, Golder Thoma Cressey Fund II, John Hancock L.P. II, Menlo Ventures III, and Prudential Ventures II, and accounts for less than 20% of the total assets in this category, had disappointing investment results on a combined basis. Compound annual returns have ranged from flat to 8% since funding for these investments began about six years ago. The fiscal year return on the Kohlberg, Kravis, Roberts investment, which has a market value in excess of \$115 million and represents nearly three quarters of the non-marketable allocation, was 14.3%.

Returns for additional time periods on the composite for this category are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	7.0%	11.2%	9.2%

Management Expenses

Total operating expenses for the fiscal year were \$9,915,278 as compared to \$7,382,920 for the previous fiscal year. The expense ratio (expenses divided by assets under management) increased from .26% to .31% as a result of the fees of the new global and international managers. The General Assembly Retirement System's share of total operating expenses amounted to \$112,587.

Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1990. A copy of the report can be obtained from the Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1990		June 30, 1989	
	Market Value	Percentage	Market Value	Percentage
Fixed Income	\$ 1,280,391,270	39.0%	\$ 1,121,947,822	36.8%
Equities	1,415,536,152	43.1%	1,273,481,163	41.8%
Real Estate	338,205,156	10.3%	289,133,658	9.5%
Non-Marketable	157,978,812	4.8%	104,600,570	3.4%
Cash equivalents**	91,665,687	2.8%	260,098,919	8.5%
Net assets at market value	<u>\$ 3,283,777,077 *</u>	<u>100.0%</u>	<u>\$ 3,049,262,132 *</u>	<u>100.0%</u>
Net assets, at cost	<u>\$ 2,971,557,481 *</u>		<u>\$ 2,752,152,181 *</u>	

* These amounts represent the total assets under management of the Illinois State Board of Investment. The assets of the General Assembly Retirement System at market and cost for fiscal year 1990 were \$36,119,540 and \$32,549,302, respectively. For fiscal year 1989 the market and cost values were \$34,742,711 and \$31,290,392, respectively.

** Cash equivalents includes other assets less liabilities.

ANALYSIS OF INVESTMENT PERFORMANCE

	1990	1989	1988	1987	1986
Total Return* - Past 3 years		8.3%			
Total Return* - Past 5 years			11.5%		
Total Return* - year by year	8.0%	14.3%	2.5%	8.8%	24.6%
Actuarial Assumed Rate of Return		8.0%		7.5%	6.0%
Average Net Income Yield*	5.2%	5.7%	5.6%	5.3%	6.4%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	5.9%	12.0%	9.3%	5.7%	17.9%
Comparison index:					
Shearson Lehman Government/ Corporate Bond Index	7.1%	12.3%	7.5%	4.7%	20.6%
Comparative rates of return on equities					
Total equities - ISBI	10.5%	17.0%	(4.6%)	14.4%	36.5%
Comparison index:					
S&P 500	16.4%	20.6%	(6.9%)	25.1%	35.7%

* Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

Statistical Section

Balance Sheet Assets

Balance Sheet Liabilities and Fund Balance

Revenues by Source

Expenses by Type

Benefit Expenses by Type

Number of Participants

Number of Recurring Benefit Payments

Termination Refunds

Number on Active Payrolls

Active Retirees by State

**Retirement Annuitants Statistics and
Average Monthly Benefits**

BALANCE SHEET ASSETS

Fiscal Year Ended June 30	Fixed Assets				
	Cash	Receivables	Investments at Cost	Net of Accumulated Depreciation	Total
1981	\$ 315,970	\$ 4,348	\$ 15,401,144	\$ --	\$ 15,721,462
1982	469,123	7,379	16,868,387	--	17,344,889
1983	855,726	77,925	19,550,646	--	20,484,297
1984	370,721	6,364	21,638,352	--	22,015,437
1985	194,235	60,245	23,015,713	--	23,270,193
1986	511,796	34,252	26,214,899	--	26,760,947
1987	534,782	3,788	28,649,633	627	29,188,830
1988	494,346	19,628	29,620,883	14,596	30,149,453
1989	348,265	76,691	31,290,392	13,532	31,728,880
1990	913,283	14,447	32,549,302	17,723	33,494,755

BALANCE SHEET LIABILITIES AND FUND BALANCE

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Automatic Annuity Increase	Reserve for Future Operations	Total
1981	\$ 15,430	\$ 3,840,316	\$ 1,127,504	\$ 10,738,212	\$ 15,721,462
1982	16,622	4,310,327	1,176,380	11,841,560	17,344,889
1983	20,600	4,129,681	1,183,439	15,150,577	20,484,297
1984	25,021	4,539,234	1,146,005	16,305,177	22,015,437
1985	19,322	4,612,815	1,062,563	17,575,493	23,270,193
1986	21,971	5,373,363	1,009,112	20,356,501	26,760,947
1987	47,954	5,555,017	859,800	22,726,059	29,188,830
1988	43,067	6,177,939	683,256	23,245,191	30,149,453
1989	51,374	6,748,268	460,664	24,468,574	31,728,880
1990	52,078	8,237,231	--	25,205,446	33,494,755

REVENUES BY SOURCE

Fiscal Year Ended June 30	Participant Contributions	Employer Contributions			Income From Investments	Total
		State of Illinois	Transferred from Reciprocating Systems	Total		
1981	\$ 736,918	\$ 2,233,000	\$ 16,683	\$ 2,249,683	\$ 1,475,142	\$ 4,461,743
1982	766,686	1,450,000	11,637	1,461,637	1,577,311	3,805,634
1983	786,705	2,061,100	58,181	2,119,281	2,877,001	5,782,987
1984	658,899	1,524,800	--	1,524,800	2,204,477	4,388,176
1985	679,000	2,215,800	2,932	2,218,732	1,516,230	4,413,962
1986	1,059,024	2,216,200	125,212	2,341,412	3,416,960	6,817,396
1987	767,483	2,214,100	213	2,214,313	3,064,668	6,046,464
1988	796,393	1,970,000	--	1,970,000	1,933,098	4,699,491
1989	869,635	1,997,500	--	1,997,500	2,555,317	5,422,452
1990	1,002,258	2,072,600	74,401	2,147,001	2,665,883	5,815,142

EXPENSES BY TYPE

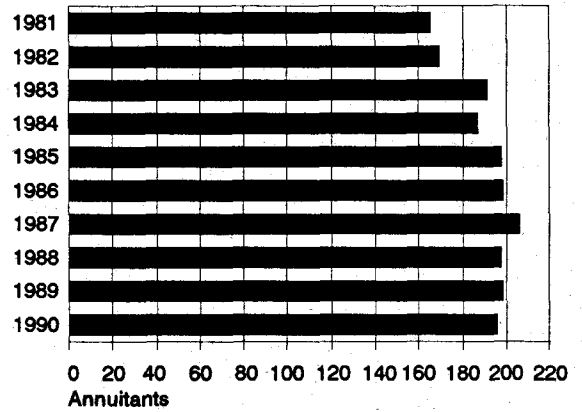
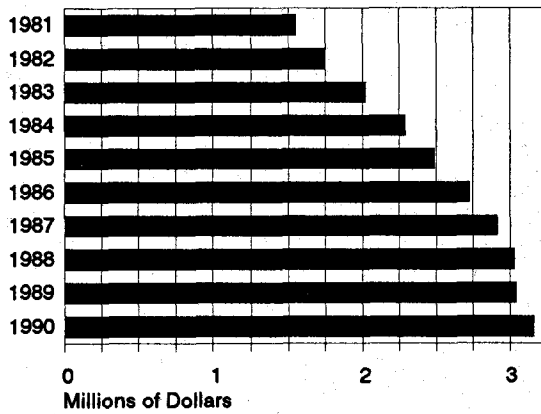
<u>Fiscal Year Ended June 30</u>	<u>Benefits</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
1981	\$ 1,866,302	\$ 104,560	\$ 62,261	\$ 2,033,123
1982	2,094,792	56,797	67,284	2,218,873
1983	2,389,904	185,106	72,547	2,647,557
1984	2,712,913	71,902	76,642	2,861,457
1985	2,955,395	118,711	79,401	3,153,507
1986	3,200,212	42,316	86,763	3,329,291
1987	3,461,212	80,202	103,150	3,644,564
1988	3,618,087	16,717	99,177	3,733,981
1989	3,682,411	55,660	113,261	3,851,332
1990	3,880,692	42,427	126,852	4,049,971

BENEFIT EXPENSES BY TYPE

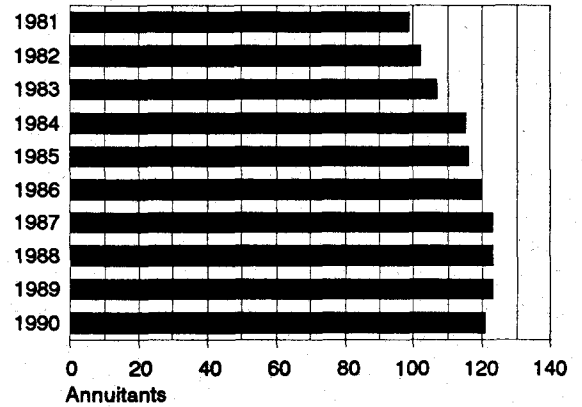
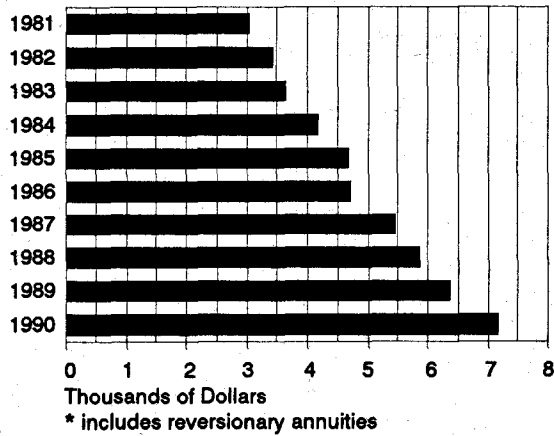
<u>Fiscal Year Ended June 30</u>	<u>Retirement Annuities</u>	<u>Survivors' Annuities *</u>	<u>Total</u>
1981	\$ 1,563,585	\$ 302,717	\$ 1,866,302
1982	1,751,641	343,151	2,094,792
1983	2,024,306	365,598	2,389,904
1984	2,295,291	417,622	2,712,913
1985	2,487,319	468,076	2,955,395
1986	2,728,059	472,153	3,200,212
1987	2,913,799	547,413	3,461,212
1988	3,030,995	587,092	3,618,087
1989	3,046,455	635,956	3,682,411
1990	3,163,616	717,076	3,880,692

*Includes Reversionary annuities.

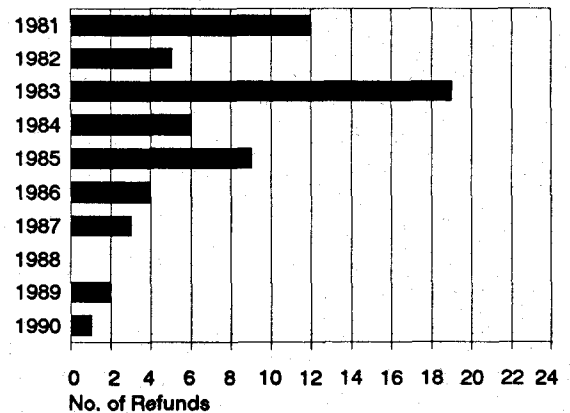
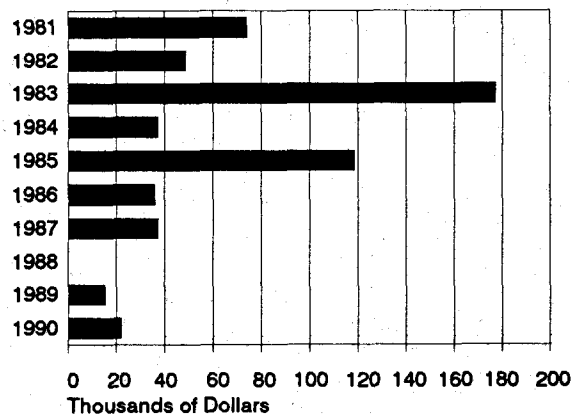
Retirement Annuities



Survivor Annuities*



Termination Refunds



NUMBER OF PARTICIPANTS

<u>At June 30</u>	<u>Active</u>	<u>Inactive</u>	<u>Total</u>
1981	236	81	317
1982	239	70	309
1983	189	105	294
1984	189	98	287
1985	190	92	282
1986	192	81	273
1987	188	86	274
1988	185	83	268
1989	184	86	270
1990	188	81	269

NUMBER OF RECURRING BENEFIT PAYMENTS

<u>at June 30</u>	<u>Retirement Annuities</u>	<u>Survivors' Annuities</u>	<u>Reversionary Annuities</u>	<u>Total</u>
1981	166	99	1	266
1982	169	102	2	273
1983	191	107	2	300
1984	187	115	2	304
1985	198	116	3	317
1986	199	120	3	322
1987	206	123	3	332
1988	198	123	3	324
1989	199	123	3	325
1990	196	121	3	320

TERMINATION REFUNDS

<u>Fiscal Year Ended June 30</u>	<u>Number</u>	<u>Amount</u>
1981	12	\$ 73,716
1982	5	48,265
1983	19	177,273
1984	6	37,363
1985	9	118,711
1986	4	36,171
1987	3	36,994
1988	--	--
1989	2	15,475
1990	1	21,890

NUMBER ON ACTIVE PAYROLLS

at June 30	Elected State Officers	House Members	Senate Members	Miscellaneous Active	Total
1981	5	173	58	--	236
1982	5	173	58	3	239
1983	6	117	59	7	189
1984	6	117	59	7	189
1985	6	116	59	9	190
1986	6	116	59	11	192
1987	6	116	59	7	188
1988	6	116	59	4	185
1989	6	115	59	4	184
1990	6	118	59	5	188

ACTIVE RETIREES BY STATE

ALABAMA	0	KENTUCKY	0	NORTH DAKOTA	0
ALASKA	0	LOUISIANA	0	OHIO	0
ARIZONA	1	MAINE	0	OKLAHOMA	0
ARKANSAS	0	MARYLAND	0	OREGON	1
CALIFORNIA	0	MASSACHUSETTS	0	PENNSYLVANIA	0
COLORADO	0	MICHIGAN	0	RHODE ISLAND	0
CONNECTICUT	0	MINNESOTA	1	SOUTH CAROLINA	0
DELAWARE	0	MISSISSIPPI	0	SOUTH DAKOTA	0
DISTRICT OF COLUMBIA ..	4	MISSOURI	0	TENNESSEE	0
FLORIDA	4	MONTANA	0	TEXAS	1
GEORGIA	0	NEBRASKA	0	UTAH	0
HAWAII	0	NEVADA	0	VERMONT	0
IDAHO	0	NEW HAMPSHIRE	0	VIRGINIA	1
ILLINOIS	177	NEW JERSEY	1	WASHINGTON	0
INDIANA	1	NEW MEXICO	0	WEST VIRGINIA	0
IOWA	0	NEW YORK	0	WISCONSIN	4
KANSAS	0	NORTH CAROLINA	0	WYOMING	0
				OTHER COUNTRIES	0
				TOTAL	196

RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

Fiscal Year Ended June 30	At Retirement		Average Current Age	Average Current Monthly Benefit
	Average Age	Average Length of Service *		
1981	61.8	14.6	68.8	\$ 822
1982	61.8	14.8	69.3	868
1983	61.6	14.8	68.5	1,002
1984	61.4	14.8	68.8	1,040
1985	61.2	14.8	69.0	1,119
1986	61.1	14.5	69.3	1,152
1987	61.0	14.3	69.3	1,216
1988	60.6	14.2	69.5	1,252
1989	60.3	13.9	69.9	1,298
1990	60.1	13.5	70.3	1,359

* in years

Plan Summary and Legislative Section

SUMMARY OF RETIREMENT SYSTEM PLAN (As of June 30, 1990)

1. PURPOSE

The purpose of the System is to provide retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected state officials and their beneficiaries.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of 7 members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to insure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE MEMBERSHIP

All members of the Illinois General Assembly and any person elected to the office of Governor, Lieutenant Governor, Secretary of State, Treasurer, Comptroller or Attorney General become members of the System unless they file an election not to participate within 24 months of taking office.

Any person who has served 10 or more years as Clerk or Assistant Clerk of the House of Representatives, Secretary or Assistant Secretary of the Senate or any combination thereof, may elect to become a participant.

A participant with at least 6 years of service may, following termination of service in the General Assembly, elect to continue participation while employed in certain other positions of public service.

4. PARTICIPANT CONTRIBUTIONS

Participants are required to contribute a percentage of salary as their share of meeting the cost of the various benefits at the rates shown below:

Retirement Annuity	8.5%
Automatic Annual Increase	1.0%
Survivors' Annuity	2.0%
Total	<u>11.5%</u>

5. RETIREMENT ANNUITY

A. Qualification of Participant

Upon termination of service, a participant is eligible for a retirement annuity at age 55 with at least 8 years of credit or at age 62 with at least 4 years of credit.

B. Amount of Annuity

Effective January 1, 1982, the retirement annuity is determined according to the following formula based on the applicable salary:

3.0% for each of the first 4 years of credit; 3.5% for each of the next 2 years of credit; 4.0% for each of the next 2 years of credit; 4.5% for each of the next 4 years of credit; 5.0% for each year of service in excess of 12 years.

The maximum annuity is 85% of final rate of salary after 20 years of credit.

C. Optional Forms of Payment

Reversionary Annuity -- A participant may elect to receive a reduced annuity during his or her lifetime in order to provide a spouse, parent, child, brother or sister with a lifetime income. Such payment to a spouse would be in addition to the survivors' annuity benefit. The election should be filed with the System at least 2 years prior to retirement.

D. Annual Increases in Retirement Annuity

Post retirement increases of 3% of the current amount of annuity are granted to participants effective in January of the year next following the first anniversary of retirement and in January of each year thereafter. For participants who remain in service after attaining 20 years of creditable service, the 3% annual increases shall begin to accrue on the January 1 next following the date upon which the participant (1) attains age 55, or (2) attains 20 years of creditable service, whichever occurs later. In addition, the annual increases shall continue to accrue while the participant remains in service; however, such increases shall not become payable until January 1 next following the first anniversary of retirement.

E. Suspension of Retirement Annuity

An annuitant who reenters service becomes a participant and resumes contributions to the System as of the date of reentry and retirement annuity payments cease.

If the provisions of the Retirement Systems' Reciprocal Act are elected at retirement, any employment which would result in the suspension of benefits under any of the retirement systems being considered would also cause the annuity payable by the General Assembly Retirement System to be suspended.

6. SURVIVORS' ANNUITY

A. Qualification of Survivor

If death occurs while in service, the participant must have established at least two years of credit. If death occurs after termination of service and prior to receipt of retirement annuity, the participant must have established at least 8 years of credit. To be eligible for the survivors' annuity, the spouse and participant or annuitant must have been married for at least 1 year immediately preceding the date of death.

An eligible spouse qualifies at age 50 or at any age if there is in the care of the spouse unmarried children of the participant under age 18 or over age 18 if disabled. Eligible surviving children would be entitled to benefits if no spouse survives.

B. Amount of Payment

If the participant's death occurs while in service, the surviving spouse without eligible children of the member would be eligible to 66-2/3% of earned retirement annuity, subject to a minimum of 10% of salary. A surviving spouse with eligible children of the participant would receive 30% of salary increased 10% of salary for each minor child, subject to a maximum of 50% of salary to a family.

If the participant's death occurs after termination of service or retirement, the surviving spouse without eligible children of the participant would be eligible to 66-2/3% of earned retirement annuity. A surviving spouse with eligible children would receive 75% of earned retirement annuity unless the participant is survived by a dependent disabled child in which case the annuity to a surviving spouse would not be less than 100% of the earned retirement annuity.

The minimum survivors' annuity for any qualified survivor shall be \$300 per month.

C. Duration of Payment

When all children, not including disabled, are ineligible because of death, marriage or attainment of

age 18, the spouse's benefit is suspended if the spouse is under age 50 until attainment of such age. A surviving spouse who remarries prior to attainment of age 55 would be disqualified for any future benefit payments.

D. Annual Increases in Survivors' Annuity

Increases of 3% of the current amount of annuity are granted to survivors effective in January of the year next following the first anniversary of the commencement of the annuity and in January of each year thereafter.

7. DEATH BENEFITS

The following lump sum death benefits are payable to the named beneficiaries or estate of the participant only if there are no eligible survivors' annuity beneficiaries surviving the deceased participant.

A. Before Retirement

If the participant's death occurs while in service, a refund of total contributions to the System, without interest, in the participant's account.

B. After Retirement

If the participant's death occurs after retirement, a refund of the excess of contributions to the System over annuity payments, if any.

C. Death of Survivor Annuitant

Upon death of the survivor annuitant with no further survivors' annuity payable, a refund of excess contributions to the System over total retirement and survivors' annuity payments, if any.

8. DISABILITY BENEFIT

A participant with at least 8 years of service who becomes disabled while in service as a contributing participant is eligible for a retirement annuity regardless of age.

If disability is service-connected, the annuity is subject to reduction by amounts received by a participant under the Workmen's Compensation Act and the Workmen's Occupational Diseases Act.

9. REFUND OF CONTRIBUTIONS

Upon termination of service, a participant is entitled to a refund of total contributions to the System without interest.

If unmarried at retirement, a participant is entitled to a full refund of contributions for survivors' annuity. The refund may be repaid, with required interest, to qualify a spouse for survivors' benefits if the participant marries after retirement.

LEGISLATIVE AMENDMENTS

Amendments with an effective date during fiscal year 1990 having an impact on the System were:

SENATE BILL 1258

1. Amends certain acts to provide additional compensation amounts for specific leadership positions retroactive to January 11, 1989. This provision was later ruled to be unconstitutional by the Illinois Supreme Court. As a result, the additional compensation amounts will be paid prospectively beginning January, 1991.
2. Allows the elected state executive officers to participate based on total compensation, effective January 1, 1990.
3. Allows participants who have elected to continue participation in the System following termination of service as a General Assembly member, or who are serving as Clerk or Assistant Clerk of the House, or Secretary or Assistant Secretary of the Senate to contribute based on compensation received or the salary of the highest salaried officer of the General Assembly, whichever is less.
4. Allows for full credit in the System upon transfer of any such credit from retirement systems defined in Articles 3 through 18 upon prescribed payment, but without payment for state funded cost provided application to transfer is made between January 1, 1990 through February 1, 1991. Information received from the transferring system must identify to the System those contributions which are to be considered as "employer picked up".

SENATE BILL 95

1. Eliminates from consideration as salary, any imputed income a participant might be receiving resulting from federal law, based on the value of group term life insurance provided by the state.
2. Provides for payment of any annuity for the whole calendar month in which death occurs.
3. Allows a member, who has elected not to participate, to withdraw such election prior to January 1, 1991 and make payment of contributions and interest required for back credit within three years following the date of becoming a participant.
4. Provides that, beginning January 1, 1990, the 3% automatic annual increases for participants who remain in service after attaining 20 years of creditable service shall begin to accrue on the January 1 next following the date upon which the participant (1) attains age 55, or (2) attains 20 years of creditable service, whichever occurs later. In addition, the automatic annual increases shall continue to accrue while the participant remains in service; however, such increases shall not become payable until the January 1 next following the first anniversary of retirement.
5. Provides that, beginning January 1, 1990, all automatic annuity increases shall be computed as a percentage of the total annuity payable at the time of the increase, including all previous increases.
6. Provides that, upon the death of a participant, the survivors' annuity to a qualified spouse would begin on the date of the participant's death. Upon the death of an annuitant, the benefit to a qualified surviving spouse would begin on the first of the month following death.
7. Provides that, the annuity to a qualified surviving spouse shall not be less than 100 percent of the retirement annuity earned by the member at death if he or she is survived by a dependent disabled child.
8. Provides that, beginning January 1, 1990, every survivors' annuity shall be increased on each January 1 on or after the first anniversary of the annuity by 3 percent of the current amount of the annuity including any previous increases.

9. Provides that, beginning January 1, 1990, the minimum survivors' annuity for any qualified survivor shall be \$300 per month without regard to whether the deceased participant was in service on the effective date of this amendatory act of 1989.
10. Provides, a person who would be eligible to receive a survivors' annuity, except for the fact that the person has not yet attained age 50, shall be eligible for a monthly distribution provided that payment of such distribution is required by federal law.
11. Provides that, if a deceased participant has not designated any refund beneficiary and no spouse nor children survive, the refund payment shall be made to the participant's estate.
12. Provides that, the state contributions to the System shall be increased incrementally over a seven year period to meet funding requirements specified.
13. Eliminates the requirements for an "Automatic Annuity Increase Reserve".
14. Removes the requirement that the oath of office taken by a trustee shall be taken before the Secretary of State.
15. Provides that, meetings of the board shall be held at least twice each year.
16. Requires the estimated appropriation requirements be submitted to the Governor on or before January 1, instead of November 1.
17. Provides that, cash accruing to the System not required for current expenditure shall be transferred to the Illinois State Board of Investment for purposes of investment, but until such transfer is made, these funds shall be invested temporarily by the Treasurer on behalf of the System and the interest earned thereon shall be credited to the trust fund of the System.
18. Removes requirement of certification by the Actuary of the amount of each annuity to be granted by the Board.
19. Clarifies that, all securities and property of the System and benefits payable under this article shall not be subject to judgement or other seizure by process, in bankruptcy or otherwise, and shall not be assignable. However, a person receiving an annuity, benefit, or refund may authorize withholding from such benefit in accordance with the provisions of the "State Salary and Annuity Withholding Act."

HOUSE BILL 332

Amends election to continue provision to include Articles 15 through 18 of the Illinois Pension Code as being among those retirement systems under which an otherwise qualified employee, being a former participant in the General Assembly Retirement System (GARS) having at least 6 years of credited service thereunder may elect continued participation in the GARS instead of participating in the other retirement system.

NEW LEGISLATION

There was no new legislation with effective dates subsequent to June 30, 1990, affecting the operation of the System.